



FOR IMMEDIATE RELEASE

March 2, 2007

## FACT SHEET

### **MAYOR ANNOUNCES SIGNIFICANT PROGRESS MADE IN COMPLETION OF KROLL REMEDIATION RECOMMENDATIONS**

*53 of 121 Kroll remediation items complete or substantially complete and 25 more in progress*

Six months after the release of the Kroll Report, which outlined 121 remedial recommendations for the reform of the City's financial and managerial systems, the Mayor is announcing the City's Progress Report on completing those recommendations. To date, 53 or 44% of the 121 Kroll remediation items have been completed or are substantially complete, and more than 25 additional items are in progress.

In late August 2006, the Mayor put forth his action plan for addressing the Kroll recommendations in a detailed 38 page report to City Council. At the time, the Mayor provided plans to implement each of the 121 recommendations in 33 different categories. The current status report (attached) outlines the remediation items that have been complete, those that are substantially complete and those that are in progress.

Each Kroll remediation item/area is unique and may require different remediation measures. As a result, the remediation of some items takes substantially more or less resources than other items. For example, items 67-71 relate to procuring and installing a new accounting and information reporting system which will take significantly more resources and time to accomplish than most other Kroll remediation items.

#### **Highlights of Progress to Date**

Oversight Monitor – The appointment of an Independent Monitor was a significant accomplishment as it will assist the City in compliance with SEC requirements and monitoring of the City's Kroll remediation efforts.

Audit Committee – The City has implemented the Mayor's interim Audit Committee plan. An Audit Committee has been established and is in operation.

Budgeting/Forecasting Items – A number of items have been completed in this area including the issuance of the City's first five-year financial plan; publication of the 2007 budget by month and department; a final budget to actual comparison for the 2006 budget.

Enterprise Resource Planning (ERP) System – The City has issued a Request for Proposals (RFP) to replace its aging financial and information management systems. The City plans to select a vendor by March 2007.


Internal Controls – The City has established a team focused on remediating specific accounting internal control findings from the Kroll report. The team's efforts include internal control operating design evaluation (documentation) as well as operating effectiveness assessments (testing). Documentation has been completed for a number of Kroll findings and is in-process for other findings. Additionally, testing of internal control operating effectiveness is in-process.

SDCERS Various Items – SDCERS has remediated a number of Kroll remediation items related to organizational structure, financial reporting, internal controls, actuarial services, staff qualifications, board structure and City funding of SDCERS.



**OFFICE OF MAYOR JERRY SANDERS  
CITY OF SAN DIEGO**

**MEMORANDUM**

Date: February 21, 2007  
To: Honorable Members of the City Council  
From: Mayor Jerry Sanders   
Subject: Kroll Remediation Status Report Number 4, prepared for  
March 5, 2007 Council Meeting

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This is the Fourth in a series of status reports regarding Kroll Remediation efforts. To date, approximately 53 or 44% of the 121 Kroll remediation items have been completed, or are substantially complete and more than 25 additional items are in-process. Previous status reports were issued on October 5, 2006, October 30, 2006 and November 22, 2006. On March 5, 2007 my staff will meet with you to discuss the following:

- Status of remedial items completed as of February 16, 2007
- Status of remedial items in-process as of February 16, 2007
- Revisions to the Disclosure Practices Working Group

The status of all Kroll remediation items will be provided to Mr. Stanley Keller, Independent Monitor, for observations and comments. Any conclusions made by him will be provided to the City Council for its review.

Cc: City Attorney  
Chief Operating Officer  
Chief Financial Officer  
Stanley Keller, Independent Monitor  
Independent Budget Analyst  
SDCERS  
John Dyer

Attachment A - CFO Resume  
Attachment B - City Attorney Report Regarding Remediation Measures Requiring Changes to the City Charter, and Related Matters  
Attachment C - Establishment of a Charter Review Committee  
Attachment D - Disclosure Practices Working Group Controls and Procedures  
Attachment E - Status of Kroll Remediation Items Involving SDCERS

# I. Remedial Items Completed

## A. Items Previously Reported Complete

Kroll Item #	Kroll Category	Memo Reference	Additional Action Required		
			City Attorney	City Council	Mayor
7-12	Organizational Structure	10/5/2006			
24	Audit Committee – Formation and Duties (whistleblower procedures)	10/30/2006		Note A	
45	Budget Policies and Practices	10/30/2006			
46-47	City Actuarial Services	10/5/2006			
48(i)	Deferred Maintenance	10/5/2006			
49	Disclosure (DPWG)	11/22/2006		Note B	
54-57	Financial Reporting	10/30/2006			
57.1	Financial Reporting	10/5/2006			
66	Forecasting/Projections	11/22/2006			
74	Interest Allocation	10/30/2006			Note C
84-85	Reconciliation of Accounts	10/30/2006			Note C
107-108	City Funding of SDCERS	11/22/2006			
107.1	City Funding of SDCERS	10/5/2006			

### Notes:

- A. Audit Committee to assume selected areas of responsibility for “whistleblower” policies and procedures
- B. City Council action required to direct the City Attorney to modify the Municipal Code to change the membership of the Disclosure Practices Working Group (DPWG)
- C. Internal control operating design is complete; operating effectiveness (testing) to be performed

# I. Remedial Items Completed

## B. Items Completed During this Reporting Period

Kroll Item #	Kroll Category	Memo Reference	Additional Action Required		
			City Attorney	City Council	Mayor
1-6	Oversight Monitor	2/16/2007			
15	Staff Qualifications	2/16/2007			
18	Audit Committee – Formation and Duties (Long-Term Plan)	2/16/2007			Note D
19	Audit Committee – Formation and Duties (Eliminate FROB)	2/16/2007	Note E		
21	Audit Committee – Formation and Duties (Scheduled Meetings)	2/16/2007			
42	Ethics	2/16/2007		Note F	
43	Budget Policies and Practices	2/16/2007		Note G	
51	Disclosure (City Attorney Confirmation)	2/16/2007			Note H
52	Disclosure (City Council Review Period)	2/16/2007			
53	Disclosure (DPWG and Audit Committee)	2/16/2007		Note I	
71	Information Technology – Financial Reporting Systems	2/16/2007			Note J
73	Information Technology – E-Mail Systems	2/16/2007			Note K
82	Procurement	2/16/2007			Note H
89	Risk Management	2/16/2007			
96	Training	2/16/2007		Note L	
97	SDCERS Financial Reporting	2/16/2007			
98	SDCERS Internal Controls	2/16/2007			
99	SDCERS Actuarial Services	2/16/2007			
100-101	SDCERS Investment Advisors	2/16/2007			
103	City Funding of SDCERS	2/16/2007			
106	City Funding of SDCERS	2/16/2007		Note M	
113	SDCERS Organizational Structure	2/16/2007			
114	SDCERS Staff Qualifications	2/16/2007			
119,121	SDCERS Board Structure	2/16/2007			

## I. Remedial Items Completed

### Notes:

- D. Establishment of a Charter Review Committee; part of the committee's responsibilities include the long-term Audit Committee plan
- E. City Attorney to eliminate Financial Reporting Oversight Board (FROB) as redundant to the new Audit Committee
- F. Improper influence Ordinance is with Rules Committee for action
- G. City Council to review budget in April 2007
- H. Internal control operating design is complete; operating effectiveness (testing) to be performed
- I. Continued by City Council
- J. Short-term plan complete; long-term plan to be completed as part of ERP project
- K. Short-term plan complete; long-term plan scheduled for completion by September 2007
- L. Financial training budget to be submitted to City Council as part of midyear budget adjustment
- M. The repeal of "Waterfall" is in the process of being docketed with City Council

### **Remedial Category – Oversight Monitor**

- 1. Appoint a Monitor to oversee the implementation of and compliance with the Remediation Plan. (Pages 263 & M-14)
- 2. The Monitor should be selected by the Mayor in consultation with the City Council and subject to the approval of the SEC and should be an independent person of suitable standing, independence and experience for the assignment. (Pages 263 & M-14)
- 3. The Monitor should have complete and unfettered access to all City and SDCERS personnel and records. (Pages 263 & M-14)
- 4. The Monitor should make quarterly reports to the City and the SEC on the City's progress. (Pages 263 & M-14)
- 4.1 City Monitor quarterly reports should be made public in an appropriate manner including on the City's website. (Page M-14)
- 5. The Monitor should serve a term of no less than three years and should be provided adequate resources to carry out the duties of his office. (Pages 263 & M-14)
- 6. The SEC should have the right, upon request, to expand the scope of the Monitor's duties following consultation with the City. (Pages 263 & M-14)

**Status:** Complete. On January 16, 2007, the City Council approved a recommendation to hire Mr. Stanley Keller to provide the City with independent Monitoring services called out in the Security and Exchange Commission's (SEC) order as well as in the Kroll report. In performing his work, the Monitor will have complete access to all City and SDCERS personnel and records. The Monitor was hired for a three year term and his

## I. Remedial Items Completed

agreement with the City calls for annual reports to the City and the SEC. The First report is due 120 days following the approval of the agreement by the City Council.

The announcement of the City's hiring of Mr. Keller for independent Monitoring services is on the City's website at the following address:

[http://www.sandiego.gov/mayor/pdf/keller\\_statement\\_1\\_16.pdf](http://www.sandiego.gov/mayor/pdf/keller_statement_1_16.pdf)

### Remedial Category – Staff Qualifications

15. The CFO should have significant experience with governmental operations, including accounting, financial reporting and applicable disclosure standards, rules and regulations. The CFO should in particular have experience in the preparation of a CAFR in accordance with governmental accounting standards and offering statements for a municipal issuer. (Pages M-1 to M-2)

**Status:** Complete. The City hired its first-ever CFO, Mr. Jay Goldstone, who started on January 23, 2006. Mr. Goldstone has significant experience with government operations, including accounting, financial reporting and applicable disclosure standards, rules and regulations. See Attachment A for Mr. Goldstone's resume.

### Remedial Category – Audit Committee Formation and Duties

18. The City should establish a three member Audit Committee comprised of two members from the public and one City Council Member. The public members would be nominated by the Mayor and confirmed by the City Council. (Pages 251 & M-6)

**Status:** Short-term action complete. My memorandum to the City Council dated October 31, 2006 had a long-term and short-term plan for the Audit Committee. A long-term plan is required because a City Charter change is necessary to fully meet the Audit Committee recommendations identified in item 18 above. Refer to Attachment B for the City Attorney's letter dated September 1, 2006, regarding Kroll Audit Committee conflicts with the City Charter. The City recently established a Charter Review Committee (refer to Attachment C). One of the areas the committee will focus on is "What Charter modifications are necessary to implement the Kroll recommendations and other financial reforms?"

On December 6, 2006 the City Council directed the City Attorney to prepare an ordinance to amend the Municipal Code to form an interim audit committee. The City Council approved the establishment of a temporary Audit Committee on January 9, 2007 (Council item 332b). Additionally, the Council confirmed the appointments of three Council members to the temporary audit committee (item 333).

## I. Remedial Items Completed

City Council meeting results for the above referenced items can be found on the City's website at the following address:

<http://clerkdoc.sannet.gov/Website/council-meeting-results>

19. The City's Financial Reporting Oversight Board should be eliminated as redundant to the Audit Committee. (Page M-6)

**Status:** City Council action complete. At its December 6, 2006 City Council meeting, the Council directed the City Attorney to eliminate the Financial Reporting Oversight Board (FROB) as redundant to the temporary Audit Committee.

The City Attorney's Office is planning to complete this action with other code changes which would reassign the FROB responsibilities, and define the Audit Committee responsibilities further. Anticipated completion date is April 2007.

21. The Audit Committee should meet quarterly, or more often if necessary, with the City's independent auditors, the City's Auditor General and the CFO. (Page 252)

**Status:** The Council amended the Meetings of the City Council and Standing Committees for the period January 1, 2007 through December 31, 2007 to add the Audit Committee (Council item 332c). Ten meetings are scheduled for calendar year 2007.

City Council meeting results for the above referenced item can be found on the City's website at the following address:

<http://clerkdoc.sannet.gov/Website/council-meeting-results>

### Remedial Category – Ethics

42. To discourage any improper influence of the professionals who serve as "gatekeepers" to the public financial reporting process of the City, the Municipal Code should be amended to add criminal penalties for such conduct. It should be unlawful for any elected official, or employee of the City, or anyone acting under their direction, to take any action to corruptly influence, coerce, manipulate or mislead any independent certified public accountant engaged in the performance of an audit of the financial statements of the City or its component units, or outside legal counsel performing services for the City in connection with an offering statement of the City, or any actuary performing an actuarial valuation in connection with the preparation of the City's or SDCERS's CAFRs, or employees of a bond rating agency performing a credit rating of the City's bonds. (Page M-6)

**Status:** City Attorney action complete. The City Attorney prepared an ordinance and submitted it for City Council Action on November 1, 2006. On November 13, 2006, at the Special City Council Financial Hearing, the ordinance was referred to the Rules Committee. The Rules Committee is currently coordinating with the City Attorney's Office to docket the item. The ordinance should be reviewed at a February or March Rules Committee meeting.



# I. Remedial Items Completed

## Remedial Category – Budget Policies and Practices

43. In order to maintain current service levels and address issues such as deferred maintenance, the City must reduce expenditures by improving efficiency, increasing the current revenue base, and seeking alternative revenue sources. (Page M-14)

**Status:** Mayoral action complete. Supporting data described below will be included in the 2008 budget to be submitted to the City Council on April 13, 2007.

I presented the City's first five-year financial plan to the City Council on November 29, 2006. The plan addresses deferred maintenance, reducing expenditures via various methods, such as, elimination of positions; business process engineering and streamlining; employee benefit adjustments; debt refinancing; budget clean-up; release of encumbered funds; transfer of inactive fund balances; establishing a property business improvement district; leveraging city assets and managed competition. Revenues are projected to increase through normal growth.

I realize that the Financial Outlook is only a tool to help produce a comprehensive, long-range analysis of the City's general fund revenues and expenditures. The five-year financial outlook will be regularly updated and will be used to assist with the preparation of the City's annual budget. The plan can be accessed on the City's website at:

[http://www.sandiego.gov/mayor/pdf/five\\_year\\_plan\\_11\\_15.pdf](http://www.sandiego.gov/mayor/pdf/five_year_plan_11_15.pdf)

## Remedial Category – Disclosure

51. The City Attorney or City Attorney staff member should collect information relevant to public filings and bond offerings and should confirm, in writing, the accuracy of this information in the City's public documents. (Page M-25)

**Status:** Complete (internal control operating effectiveness to be tested upon the City's issuance of public filings or bond offerings). The Disclosure Practices Working Group (DPWG) adopted Controls and Procedures in October 2005 (refer to Attachment D) that require the City Attorney's Office to collect information relevant to public filings and bond offerings and to confirm, in writing, the accuracy of this information.

52. The City Council should have at least two weeks to review substantially completed drafts of a preliminary offering statement before it is asked to vote to approve the final document. (Pages 263 & M-14)

**Status:** Complete. The DPWG adopted Controls and Procedures in October 2005 that require it to provide the City Council over two weeks of review time before the City Council is asked to approve final offering documents. Refer to Article VI of the DPWG Controls and Procedures which are included as Attachment D.

## I. Remedial Items Completed

In the most recent offering statements (Ballpark Refunding and Water System Financing), the City Council was provided with over three weeks of review time. Documentation of over three weeks of lead time is included in the following Independent Budget Analyst (IBA) Reports.

- IBA Report Number: 07-7, Refunding of the Ballpark Bonds
- IBA Report Number: 07-8, Subordinated Water Revenue Notes, Series 2007A

53. The DPWG should report to the City's new Audit Committee. (Pages 249 & M-5)

**Status:** Mayoral task complete. The Mayor's Office previously submitted a Request for Council Action that the City Council direct the City Attorney to amend the Municipal Code for certain changes to the DPWG (refer to Council item 330 and my memorandum dated November 22, 2006). At the December 6, 2006 Council meeting, the item was continued until the independent monitor/consultant is hired and could provide input.

I recommend that the Council add the requirement to item 330 that the DPWG meet periodically (on an as needed basis) with the City's new Audit Committee to discuss the City's disclosure controls and procedures.

### Remedial Category – Information Technology, Financial Reporting Systems

71. The City should implement and utilize an automated financial reporting system to prepare the financial statements and complete the year-end closing. The City should maintain documentation supporting adjustments to facilitate the review of financial data. (Page M-15)

**Status:** Short-term plan complete. To facilitate automated financial reporting and financial documentation, the City completed the production phase of the data warehousing and business intelligence project on January 5, 2007. The application can be accessed via the following link:

<http://intra.sannet.gov/businessobjects/logon.do>

The long-term plan to remediate Kroll item 71 is the implementation of an Enterprise Resource Planning (ERP) system. Refer to item 67 in section II.

### Remedial Category – information Technology, E-Mail Systems

73. All City "Post Offices" should be centrally operated, maintained, and backed up. Consolidating systems and personnel will improve economy and ease maintenance. It will also ensure consistent data retention systems, policies, and procedures are used for City information. (Page M-26)

## I. Remedial Items Completed

**Status:** Short-term plan complete. The short-term plan was to update the e-mail records retention policies. The long-term plan is the migration of the City's e-mail systems to Microsoft Outlook/Exchange and into one centrally managed system. The original due date for Microsoft Outlook/Exchange and one centrally managed system was June 2007. This has been revised to September 2007.

For background information, in early 2006, the Mayor created an e-mail task force to evaluate e-mail retention policies and system practices across City government. As a result of these efforts, the task force concluded that there were two distinct pieces of e-mail retention: records management and disaster recovery. After careful review, it was determined that the existing records management policies were acceptable, but that disaster recovery policies (that required keeping backups of all e-mails for just two weeks) required modification.

To that end, the task force recommended and the Chief Information Officer implemented (in October 2006) a revised procedure of retaining backups of the e-mail system for six months with a provision for extraordinary circumstances. During extraordinary circumstances (as determined by the Mayor and his advisors, "special circumstances" include external investigations, law suits, etc.), the six month window for maintaining backups can be extended until the special circumstances have elapsed.

### Remedial Category – Procurement

82. The City should review procurement procedures to ensure compliance with all applicable policies, the proper segregation of duties, and the proper safeguard of requisition forms. (Page M-24)

**Status:** Complete (internal control operating effectiveness to be tested by March 31, 2007). On October 9, 2006, the Purchasing and Contracting (P&C) department was created to centralize, consolidate and streamline procurement resources and processes associated with contract pre-award operations for commodities, services, consultant and construction into one department (refer to City Council item 150). Policies and procedures have been drafted and are pending formal adoption for non-engineering consulting services which require contract execution by P&C. Additionally, a Designation of Authority memorandum was issued on November 2, 2006 to delineate persons who have the authority to initiate and negotiate a contract, lease, or other document or amendment, as well as persons who have the authority to sign and award contracts.

A formal documented process for P&C has been completed for compliance with Municipal Code item 22.3223. This requires that the City Council approve awards of contracts exceeding \$250,000 to a single consultant during any fiscal year. Documentation includes an internal control matrix, process flow, process narrative and identification of significant control activities.

## I. Remedial Items Completed

Additionally, user profiles within OPIS (Online Procurement Information System) have been remediated to ensure the proper segregation of duties. Finally, Central Stores Department Instruction Number DA-1.01 was issued to ensure the proper and accurate issuance and handling of City financial requisition forms.

### Remedial Category – Risk Management

89. The City should improve monitoring of Workers' Compensation cases and ensure that payments are made in a timely manner to avoid penalties. (Page M-24)

**Status:** Complete. The City's Risk Management Department has improved the monitoring and processing of workers' compensation permanent disability penalty payments. This remediation item is the result of a finding by Macias Ginni & O'Connell during its fiscal year 2004 financial statement audit. The finding relates to a 10% penalty that is required on any permanent disability payment that is more than 14 days after the last temporary disability payment. The City's improvement in reducing penalty incidents and amounts is shown below:

Fiscal Year	Penalty Incidents	Penalty Amounts
2003	302	\$90,991
2004	253	\$57,350
2005	144	\$34,827
2006	134	\$37,337
2007*	45 or 90 annualized *	\$10,786 or \$21,572 annualized *

\* The penalty incidents and amounts for fiscal year 2007 are for the first six months of the year (July-December 2006). The penalty incidents and amounts have been annualized, by multiplying by two, for comparison purposes to prior fiscal years.

### Remedial Category – Training

96. Funding should be added to the budget to ensure adequate training of personnel to ensure that they remain current on financial reporting standards. (Pages 246 to 247)

**Status:** Continual. Many of the accounting staff within the Auditor & Comptroller's Office has gone to at least one training session during this fiscal year. Specific funding will be included in the fiscal year 2008 budget for additional training opportunities in both this Auditor's budget as well as in the Financial Management.

## I. Remedial Items Completed

### Remedial Category – SDCERS Financial Reporting

97. The Audit Committee concurs with actions being taken by the Retirement Administrator to establish a financial reporting function within SDCERS. (Page M-9)

**Status:** Complete. Refer to SDCERS letter dated January 31, 2007 regarding the Status of Kroll Remediation (see Attachment E).

### Remedial Category – SDCERS Internal Controls

98. SDCERS should develop a comprehensive methodology to identify, track, and recover overpayments made to deceased pensioners. (Page M-25)

**Status:** Complete. Refer to SDCERS letter dated January 31, 2007 regarding the Status of Kroll Remediation (see Attachment E). I will forward my recommendation to the SDCERS' Board that this item be tested for internal control operating effectiveness no later than fiscal year 2008. Additionally, I recommend that the internal control testing results and documentation be presented to the SDCERS Audit Committee.

### Remedial Category – SDCERS Actuarial Services

99. SDCERS should rebid the contract for the performance of its actuarial valuation every five years and that the actuary not be engaged for more than two five-year terms. (Pages 260 & M-12)

**Status:** Complete. Refer to SDCERS letter dated January 31, 2007 regarding the Status of Kroll Remediation (see Attachment E).

### Remedial Category – SDCERS Investment Advisors

100. SDCERS should require its investment consultants and fund managers to annually complete a Vendor Disclosure Form that calls for disclosure of all information regarding remuneration paid or received related to funds managed for SDCERS, as well as its business dealings with the SDCERS investment consultant. (Pages 258 & M-10)
101. Investment consultants and managers should be advised that a failure or delay in filing the annual disclosure will result in a penalty, including termination of services. (Pages 258 & M-10)

**Status:** Complete. Refer to SDCERS letter dated January 31, 2007 regarding the Status of Kroll Remediation (see Attachment E). I will forward my recommendation to the SDCERS' Board that these items be tested for internal control operating effectiveness no later than fiscal year 2008. Additionally, I recommend that the internal control testing results and documentation be presented to the SDCERS Audit Committee.

## I. Remedial Items Completed

### Remedial Category – City Funding of SDCERS

103. The City should contribute to SDCERS annually the Annual Required Contribution, as calculated by SDCERS actuary, including an amount sufficient to amortize existing UAAL over a reasonable period of time that assures that current taxpayers are paying for the full cost of services rendered by employees of the City and not passed on to future generations. (Pages 259 & M-11)

**Status:** Complete. The Mayor's Five Year Plan contains full ARC (Annual Required Contribution) contributions over an amortization period in compliance with the "Gleason Settlement." The City's budget for fiscal year 2007 contains a contribution of \$162 million to pay the full ARC. This contribution was made at the beginning of the fiscal year (July 2006).

Additionally, the plan for fiscal years 2008-2012 provides for payment of ARC plus to eliminate negative amortization of the UAAL (Unfunded Actuarial Accrued Liability). The ARC plus contribution amounts to an additional \$27.1 million annual contribution over this period, or \$135.5 million in total.

The survey results can be accessed on the City's website at:

[http://www.sandiego.gov/mayor/pdf/five\\_year\\_plan\\_11\\_15.pdf](http://www.sandiego.gov/mayor/pdf/five_year_plan_11_15.pdf)

106. The City should not use its contribution to pay for any benefits other than retirement benefits and the related costs of administering the Plan. Thus, no portion of the City's annual contribution to SDCERS should be credited against the City's obligation to pay retiree healthcare costs, or for any other of the so-called "Waterfall" payments, unless and until the City pays the required ARC. (Pages 259 & M-11)

**Status:** City Attorney action complete. The Municipal Code change to repeal the "Waterfall" payments is in the process of being docketed.

### Remedial Category – SDCERS Organizational Structure

113. The controlling legal documents must make the Board's authority clear related to investment policy, actuarial assumptions, system budget and policies, retention of outside professionals, and administrative rules. (Page M-25)

**Status:** Complete. Refer to SDCERS letter dated January 31, 2007 regarding the Status of Kroll Remediation (see Attachment E).

## I. Remedial Items Completed

### Remedial Category – SDCERS Staff Qualifications

114. The chief accounting officer of SDCERS should have adequate prior experience with investment operations and financial reporting and disclosures. (Pages 258 & M-10)

**Status:** Complete. Refer to SDCERS letter dated January 31, 2007 regarding the Status of Kroll Remediation (see Attachment E).

### Remedial Category – SDCERS Board Structure

119. SDCERS should have standing committees to address board governance, compensation and evaluation of the Retirement Administrator, investments, and an audit and compliance committee. (Pages 256 & M-9)
121. SDCERS must be free to retain its own independent legal counsel. (Pages 260 & M-12)

**Status:** Complete. Refer to SDCERS letter dated January 31, 2007 regarding the Status of Kroll Remediation (see Attachment E).

## II. Remedial Items In-Process

### A. Items In-Process Previously Reported

Kroll Item #	Kroll Category	Memorandum Reference	Updated status?
13-14	Organizational Structure	October 5, 2006	No
20, 22-23	Audit Committee, Formation and Duties	October 30, 2006	Yes *
44	Budget Policies and Practices	October 30, 2006	Yes *
52.1, 52.2	Disclosure	October 5, 2006	No
58-59, 64-65	Financial Reporting	November 22, 2006	No
75-80	Internal Controls	November 22, 2006	No
81	Personnel	November 22, 2006	No
83	Redevelopment Authority	November 22, 2006	No
86	Reconciliation of Accounts	October 5, 2006	No
87	Retirement Benefits	October 30, 2006, November 22, 2006	Yes *
88	Risk Management	November 22, 2006	No
90, 95	Training	November 22, 2006	No

\* see below

#### **Remedial Category – Audit Committee Formation and Duties**

20. The Audit Committee should establish a written charter. (Pages 251 & M-6)
22. The Mayor, CFO, City Attorney, *Independent Budget Analyst (added)* and City Council should have the authority to make requests of the Audit Committee and Auditor General to perform internal audits of material matters they reasonably believe to be warranted. (Page 252)
23. With the assistance of the CFO and Auditor General, the City's independent auditors would be retained by, report to and take direction from the Audit Committee. (Page 252)

**Updated Status:** In process. The temporary Audit Committee was created by the City Council during its January 9, 2007 Council meeting (refer to section I of this memorandum). The Audit Committee is in the process of establishing a written Charter that will address its duties and responsibilities. The Audit Committee is required to develop and recommend a Charter containing the duties and responsibilities of the Committee for further discussion and approval by the City Council by April 9, 2007 (90 days from January 9, 2007).

#### **Remedial Category – Budget Policies and Practices**

44. Ongoing expenditures should be supported by ongoing revenues; capital projects should identify all future cost considerations and financial impacts, including direct



## II. Remedial Items In-Process

and indirect costs for each Enterprise Fund; activities supported by user fees should be fully cost recoverable; discretionary General Fund revenues should not be earmarked; increase the General Fund reserve to the range of 7-10%; budget development should be guided by a long term or strategic plan proposed by the Mayor and adopted by the City Council; and after adoption, annual budgets should be amended only for urgent needs. Specific funding sources should be identified to pay for these needs. (Pages M-14 & M-15)

**Updated Status:** A draft General Fund reserve policy was presented to the Budget and Finance Committee during its November 29th Committee meeting. The draft policy identifies a reserve account, separate from the "deep reserves," which will serve as a contingency for unanticipated expenses approved by City Council during a given fiscal year. It is anticipated that the General Fund policy will be finalized and presented to the full City Council by June 2007.

### Remedial Category – Retirement Benefits

87. The City Council and employees should develop realistic retirement plan parameters for future City hires. This includes positioning the City to attract and retain the talent needed to meet the citizens' expectations for services, not be viewed as providing excessive benefit levels, and creating a plan the City can afford. (Page M-25)

**Status:** Partially Complete. To address this item, the City is performing the following three evaluations:

- Actuarial evaluations of the cost implications of formula changes to the existing retirement systems (in-process)
- Benchmark study of Police Compensation and benefits for all employees (complete, see below)
- Benchmark study of Fire Compensation and benefits for all employees (in-process)

On December 21, 2006, the City issued an independent and comprehensive study of "The City of San Diego Police Classification Compensation and Benefits Survey Results." The Fact Sheet can be accessed on the City's website at:

[http://www.sandiego.gov/mayor/pdf/fs\\_pdpay.pdf](http://www.sandiego.gov/mayor/pdf/fs_pdpay.pdf)

The survey results can be accessed on the City's website at:

<http://www.sandiego.gov/mayor/pdf/pdsurvey.pdf>

On February 14, 2007, the City issued an independent and comprehensive study of "The City of San Diego Fire Classification Compensation and Benefits Survey Results." The Fact Sheet can be accessed on the City's website at:

[http://www.sandiego.gov/mayor/pdf/fire\\_survey\\_2\\_15.pdf](http://www.sandiego.gov/mayor/pdf/fire_survey_2_15.pdf)

## II. Remedial Items In-Process

### **B. Items In-Process During this Reporting Period**

#### **Remedial Category – Information Technology, Financial Reporting Systems**

67. By June 30, 2007, evaluate the information technology needs of the City, including benchmarking of existing systems against available systems suitable for management of the City's finances and the preparation of timely and accurate CAFRs and budgets. (Pages 247 & M-3)

**Status:** In-process. As background information, for the majority of its financial and accounting functions, the City currently relies on mainframe-based systems, many of which were developed more than 30 years ago.

The City recently completed a detailed Enterprise Resource Requirements plan prior to issuing a Request for Proposals (RFP) on January 19, 2007 to replace its aging financial and information management systems. As early as the City's 2001 Information Technology Strategic Plan, the City recognized a requirement to evaluate options for replacing core financial and human resources systems.

The City plans to select an Enterprise Resource Planning (ERP) vendor by March 2007. The news release for the RFP can be accessed on the City's website at:

[http://www.sandiego.gov/mayor/pdf/erp\\_factsheet\\_1\\_19.pdf](http://www.sandiego.gov/mayor/pdf/erp_factsheet_1_19.pdf)

Additionally, on February 5, 2007, the City Council adopted item 201 "Approving in Concept a Project to be Known as the Enterprise Resource Planning Core System."

#### **Remedial Category – SDCERS Financial Reporting**

102. The Retirement Administrator and CFO of SDCERS should annually include in the SDCERS' CAFR a signed management report on the financial statements and disclosures which include a statement of SDCERS' responsibility for establishing and maintaining an effective system of internal control over financial reporting and disclosures; a statement setting forth SDCERS' assessment of the effectiveness of the internal controls; a statement that based on their knowledge, the CAFR does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the CAFR not misleading; and a statement that the financial statement and other information included in the CAFR fairly present in all material respects the net assets and activities of SDCERS for the period presented. (Pages 257 & M-9)

**Status:** In-process. Refer to SDCERS letter dated January 31, 2007 regarding the Status of Kroll Remediation (see Attachment E). SDCERS intends to include a management report on the financial statements and disclosures (that meet the requirements of Kroll item 102) with its 2006 Comprehensive Annual Financial Report (CAFR).

## II. Remedial Items In-Process

### Remedial Category – City Funding of SDCERS

104. For purpose of calculating annual funding requirements, the UAAL should reflect a prudent view of economic reality and include within it the costs of the Corbett settlement. (Pages 259 & M-11)

**Status:** In-process. SDCERS Board action approved and directed the actuary to include the costs of the Corbett settlement and 13<sup>th</sup> check. The Actuary report dated January 2007 contains these components in the UAAL. The Actuarial Valuation Report was presented at the SDCERS board meeting dated January 19, 2007. The link to the SDCERS board meeting agenda follows:

[http://www.sdcers.org/agendas/2007/january/bd\\_admin\\_1\\_19\\_07.pdf](http://www.sdcers.org/agendas/2007/january/bd_admin_1_19_07.pdf)  
(refer to page 6, item IV.A.1)

The January 2007 Actuarial Report can be accessed on SDCERS website at:

[http://www.sdcers.org/images/pdf/city\\_of\\_san\\_diego\\_actuarial\\_valuation\\_report\\_1\\_12\\_07\\_final.pdf](http://www.sdcers.org/images/pdf/city_of_san_diego_actuarial_valuation_report_1_12_07_final.pdf)  
(refer to pages 29 and 31)

In addition, at its February 2007 Board Meeting, the SDCERS Board heard recommendations from Cheiron regarding changes to the amortization schedule. The Board is expected to make a final decision at its March meeting. Other actuarial assumptions will be considered in 2008.

### Remedial Category – SDCERS Organizational Structure

112. To address Board authority and pursue administrative excellence, the controlling documents should be reviewed and, if necessary, modified to ensure that the Board has the necessary tools available to effectively and efficiently carry out its fiduciary duties. (Page M-25)

**Status:** In-process. Refer to SDCERS letter dated January 31, 2007 regarding the Status of Kroll Remediation (see Attachment E).

### Remedial Category – SDCERS Board Structure

120. SDCERS should adopt a formal charter for each committee which should be updated no less frequent than every three years. Pages 257 & M-9)

**Status:** In-process. The Audit Committee's charter has been adopted. Charters are being drafted for the other standing committees. Refer to SDCERS letter dated January 31, 2007 regarding the Status of Kroll Remediation (see Attachment E).